

Message Text

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ORIGIN EB-07

INFO OCT-01 AF-06 ARA-06 EUR-12 NEA-10 ISO-00 FEA-01

ERDA-05 AID-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00

FPC-01 H-02 INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01

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ARA/EPC:RSTERN

AF/ESP:RDUNCAN NEA/RA:MONTGOMERY

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R 100125Z JAN 76

FM SECSTATE WASHDC

TO AMEMBASSY BELGRADE

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AMEMBASSY CAIRO

AMEMBASSY ISLAMABAD

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AMEMBASSY YAOUNDE

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E.O. 11652:N/A

TAGS: EFIN, ENRG

SUBJECT: CIEC: IMPACT OF HIGHER OIL PRICES ON ECONOMIC
DEVELOPMENT

REF: STATE 275435

1. IN GEARING UP FOR THE 1976 SERIES OF MEETINGS BY THE
FOUR CIEC COMMISSIONS, IT WOULD BE USEFUL TO HAVE A GENERAL
EMBASSY ASSESSMENT OF THE IMPACT OF HIGHER OIL PRICES ON
THE ECONOMIC DEVELOPMENT OF THE TWELVE NON-OPEC, G-77
COUNTRIES PARTICIPATING IN THE CIEC EXERCISE. ACTION RE-
QUESTED: YOUR ANALYSIS NO LATER THAN JANUARY 21, AND
SOONER IF POSSIBLE.

2. WE ARE INTERESTED IN YOUR GENERAL ASSESSMENT OF THE
RELATIVE IMPACT OF HIGHER OIL PRICES ON THE HOST COUNTRY'S
BALANCE OF PAYMENTS, BOTH ON THE CURRENT ACCOUNT AND THE
FINANCING OF THE CURRENT ACCOUNT. IN THIS CONTEXT, THE
ESTIMATED OIL IMPORT BILL IN 1972, 1973, 1974 AND 1975
(C.I.F. OR F.O.B.) WOULD BE HELPFUL, ALONG WITH THE COR-
RESPONDING IMPORT VOLUME FIGURES. IF THE STATISTICAL PART
OF YOUR ANSWER TO THIS QUESTION HAS ALREADY BEEN REPORTED
RECENTLY (FOR EXAMPLE, IN REPLYING TO REQUEST IN REFTEL),
POSTS MAY AVOID SOME DUPLICATION BY REFERENCING THEIR
EARLIER MESSAGES.

3. OF GREATER IMPORTANCE, HOWEVER, IS YOUR GENERAL
ASSESSMENT OF THE IMPACT OF HIGHER OIL PRICES ON THE
DOMESTIC ECONOMY IN 1974 AND 1975 AND THE LIKELY CON-
TINUED IMPACT IN 1976 AND BEYOND. (LATTER IS
IMPORTANT BECAUSE SOME COUNTRIES HAVE ONLY REACTED WITH
A SUBSTANTIAL LAG TO CHANGED ECONOMIC CIRCUMSTANCES,
CUSHIONING THE INITIAL SHOCK WITH FOREIGN BORROWINGS
AND DRAWDOWN OF RESERVES RATHER THAN BASIC ADJUSTMENT
POLICIES.) WE RECOGNIZE IT IS MOST DIFFICULT TO PINPOINT
THE PRECISE EXTENT TO WHICH HIGHER OIL PRICES HAVE
AFFECTED THE MACROECONOMIC AGGREGATES OF GROWTH, INFLATION
AND UNEMPLOYMENT. DOMESTIC ECONOMIC POLICIES AND THE
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INFLUENCE OF OTHER EXTERNAL FACTORS, SUCH AS THE SLOWDOWN
IN ECONOMIC ACTIVITY IN FOREIGN MARKETS AND INFLATION
ABROAD (BOTH OF WHICH IN TURN REFLECT HIGHER OIL PRICES),
CLOUD THE PICTURE. RECOGNIZING THESE LIMITATIONS, IT
WOULD STILL BE USEFUL TO HAVE YOUR GENERAL PICTURE OF
WHAT HIGHER OIL PRICES HAVE MEANT FOR YOUR HOST COUNTRY'S
ECONOMY. PLEASE INCLUDE INFORMATION WHERE AVAILABLE ON
SECTORAL DEVELOPMENT PROJECTS (FOR EXAMPLE, PETROCHEMICAL

FERTILIZER PLANTS) WHICH MIGHT HAVE HAD TO BE SCALED DOWN OR SHELVED AS A RESULT OF HIGHER OIL PRICES. ALSO PLEASE REFERENCE EARLIER MESSAGES WHERE THIS WILL AVOID DUPLICATION OF EFFORT.

4. WE ARE INTERESTED NOT ONLY IN YOUR BEST GENERAL ANALYSIS OF THE PAST AND PROSPECTIVE IMPACT OF HIGHER OIL PRICES ON THE DOMESTIC ECONOMY IN THE HOST COUNTRY, BUT ALSO IN WHAT YOU THINK (WITHOUT SPECIFICALLY APPROACHING HOST GOVERNMENT) IS THE PERCEPTION OF THIS IMPACT BY THE GOVERNMENT AND GENERAL POPULATION. TO WHAT EXTENT DOES AVAILABILITY OF DOMESTIC OIL COLOR THIS PERCEPTION? IT WOULD ALSO BE USEFUL TO KNOW THE EXTENT TO WHICH IT IS REALIZED THAT HIGHER OIL PRICES HAVE EXACERBATED THE RECESSION AND INFLATION PROBLEMS OF THE INDUSTRIALIZED COUNTRIES AND THUS INDIRECTLY ALSO AFFECTED THE DEVELOPING COUNTRIES BY REDUCING THE DEMAND FOR THEIR EXPORTS AND RAISING THE PRICES OF WHAT THEY IMPORT. KISSINGER

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